The Real Estate TRENDS

MAY 29
1958

A concise monthly digest of real estate and construction fundamentals and trends . . . A part of the complete service known as the Real Estate Analyst Reports

Volume XXVII

Number 21

REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

PRIVATE residential dwelling unit starts increased to an annual rate of 950,000 last month, an advance from the rate of 880,000 in March. This, together with the rapid increase in the applications for FHA loans, has made many people optimistic on the building outlook. It should be kept in mind, however, that because of the poor initial start this year it will require an average annual rate of 1,020,000 dwelling units in each succeeding month to equal the total of 992,800 units built last year.

Whether new building continues at a rate near or above a million units will depend primarily on the market which develops later in the year for the housing units which are being completed by that time. A survey we have just made in 176 cities (a detailed account of which appears in the May Real Estate Analyst) indicates that in many of these cities the trouble is not primarily a mortgage difficulty but a lack of confidence in the general economic picture.

This lack of confidence is also indicated by the fact that our long-term real estate activity index has declined again, until at the present time it is 20.1% below our normal line. In each succeeding month since last September the number of voluntary transfers of real estate in relationship to the number of families has decreased in the urban areas of the United States. So far, the much easier financing has not brought any change in the direction of this line.

Mortgage activity has also been dropping badly. It is now at a new low for the last 13 years. With the exception, however, of these three barometers, all other real estate indicators have been doing remarkably well.

Throughout the United States, residential rents are still in a favorable position, with the average of 20 principal cities setting a new high, in spite of the economic recession.

The cost of building our standard six-room frame house is down from the peak, but has shown relatively little drop. The average selling price of existing residential properties has shown little change during the past 6 years.

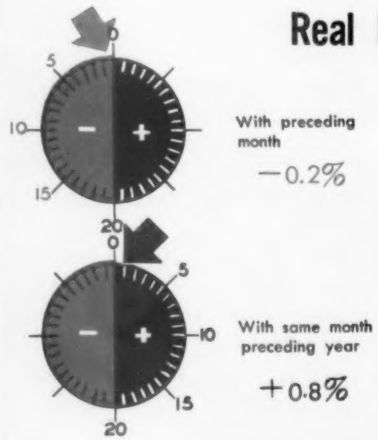
Industrial production is off slightly, but the wholesale price index has not dropped greatly. A comparison of these factors from 1910 to the present is shown on pages 244 and 245 of this report.

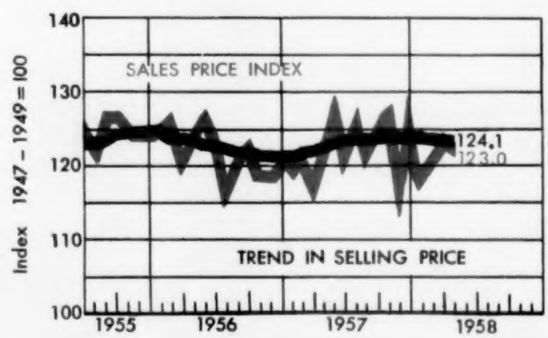
The chart at the bottom of this page shows real estate sales price comparisons since June 1955. While the month-to-month figures have shown some fluctuation, the overall trend has changed slightly since the middle of 1957.

It seems doubtful whether the next 6 months will see any great softening in real estate prices. It may be that prices will drop by a very slight amount during this period, but the movement will be minor.

The chart at the bottom of the opposite page shows mortgage interest rates in 12 major cities of the United States compared with interest rates on Government, corporate, and municipal bonds. The drop in the interest rate on Treasury bills from more than $3\frac{1}{2}\%$ to less than 2/3 of 1% in an 8-month period is remarkable. The tight money market of the fall of 1957 has been reversed so completely that lendable funds are now in superabundant supply. If the fundamental difficulty with real estate had been a question of the availability of mortgage funds, we should expect a rapid increase in new building and in voluntary transfers of real estate.

Real Estate Sales Price Comparisons





Date	Trend in selling price	Probable selling price of a house that sold for $12,000 in 1947-49 period
1947-49	100.0	$12,000
1913	40.1	4,812
1918	34.1	4,092
Mar. '29	73.9	8,868
May '32	34.8	4,176
Apr. '34	44.8	5,376
July '37	40.1	4,812
Apr. '38	42.8	5,136
Mar. '41	40.1	4,812
Oct. '48	104.5	12,540
Oct. '53	119.7	14,360

Date	Trend in selling price	Probable selling price of a house that sold for $12,000 in 1947-49 period
Oct. '54	122.3	$14,680
Oct. '55	125.1	15,010
Oct. '56	121.9	14,630
Jan. '57	121.9	14,630
May '57	123.9	14,870
Oct. '57	124.9	14,990
Nov. '57	124.7	14,960
Dec. '57	124.7	14,960
Jan. '58	124.7	14,960
Feb. '58	124.5	14,940
Mar. '58	124.3	14,920
Apr. '58	124.1*	14,890*

*Preliminary.

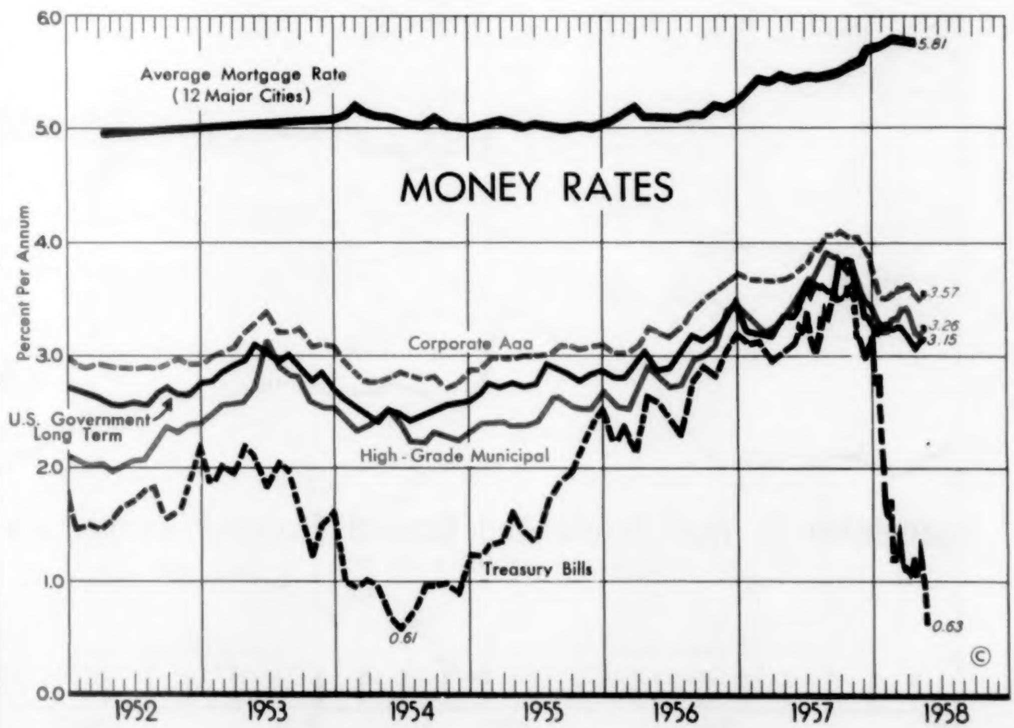
We question whether the fundamental difficulty has been financing and, accordingly, we will be surprised if real estate activity shows radical upward movements during the remainder of 1958.

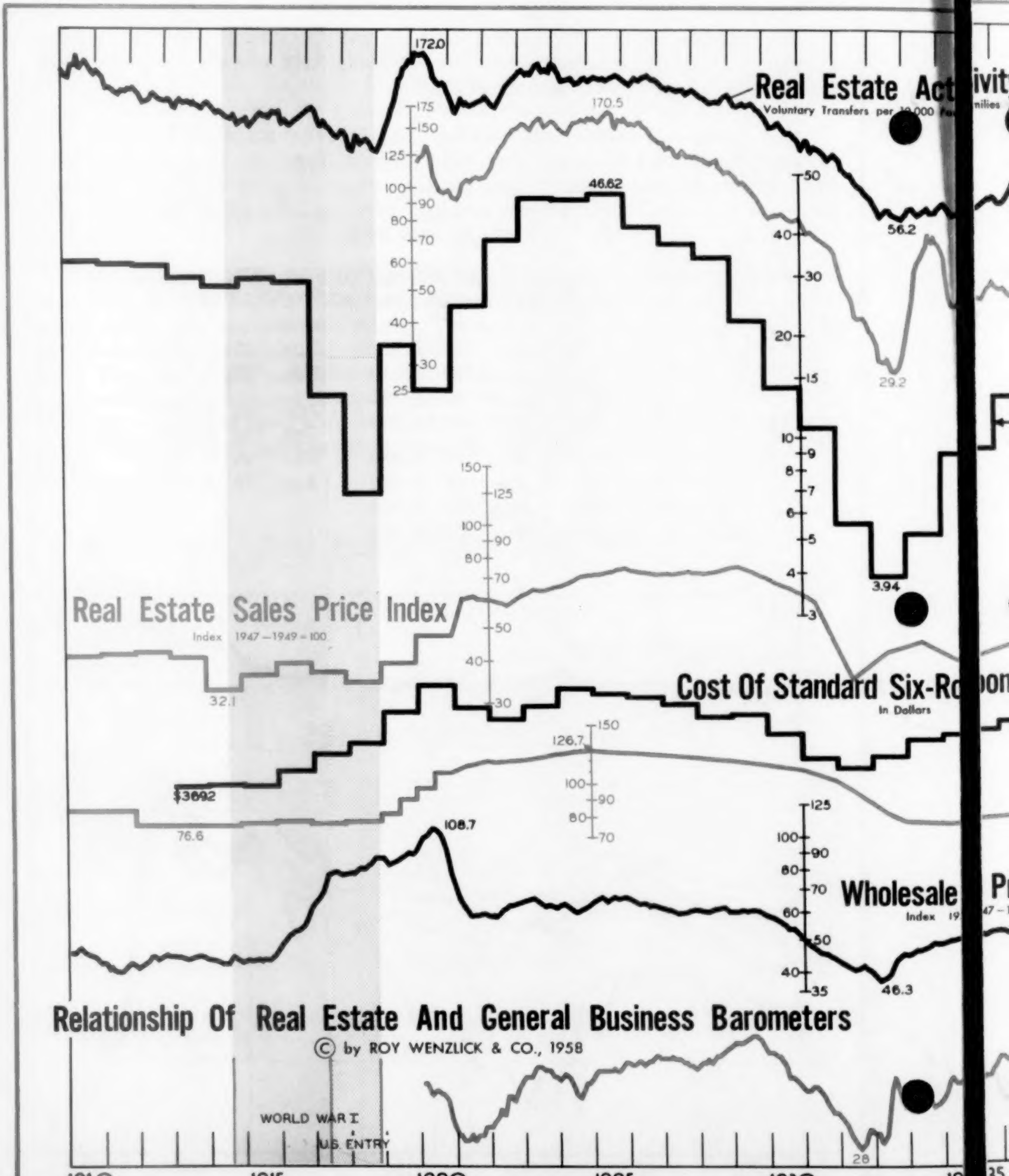
The table below shows recorded mortgage interest rates in 12 major cities of the United States from January 1954 through April 1958. This table indicates that recorded interest rates, which generally show some lag, reached a peak of 5.84% in February 1958, and have been declining since that time. The

(cont. on page 248)

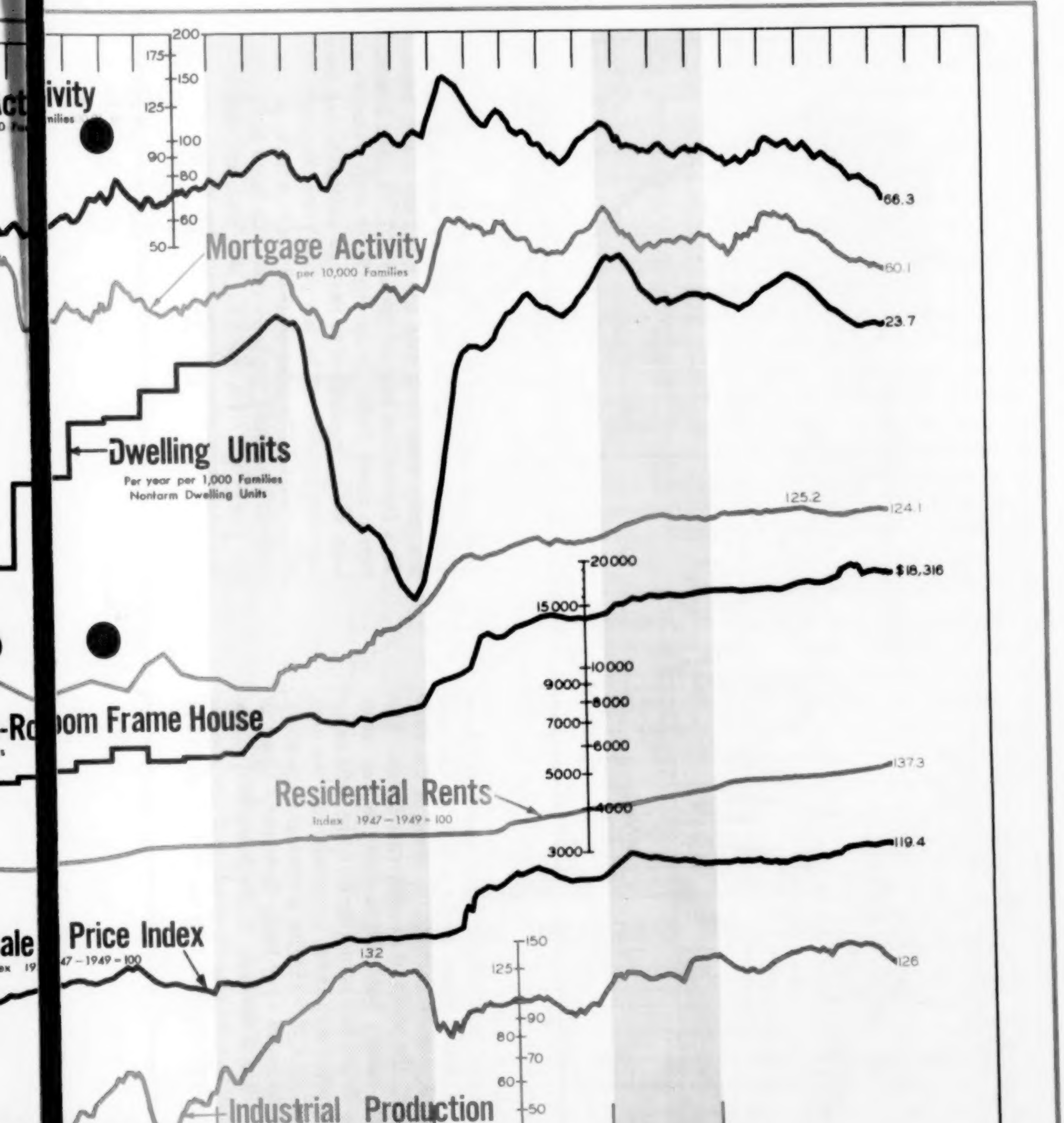
AVERAGE INTEREST RATE OF RECORDED MORTGAGES
IN 12 MAJOR CITIES OF THE UNITED STATES

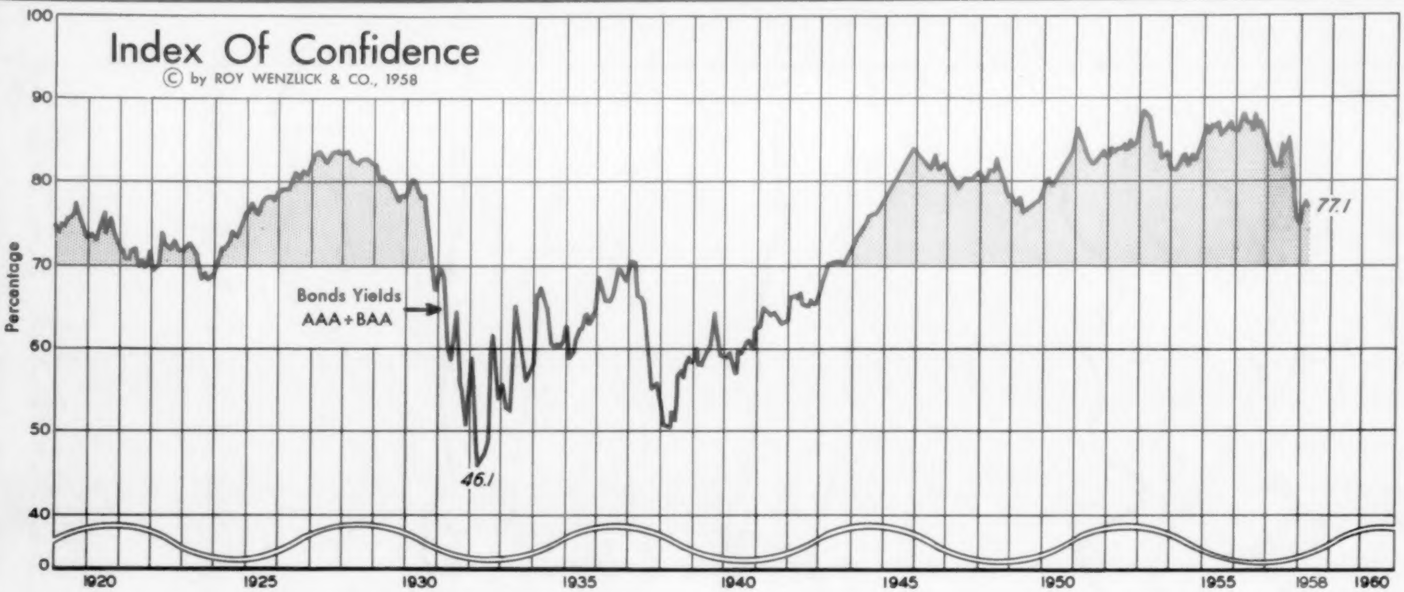
Jan. '54	5.187%	Jan. '56	5.105%	Nov. '57	5.639%
Apr. '54	5.173	Apr. '56	5.157	Dec. '57	5.758
July '54	5.089	July '56	5.141		
Oct. '54	5.092	Oct. '56	5.229	Jan. '58	5.775
				Feb. '58	5.840
Jan. '55	5.045	Jan. '57	5.363	Mar. '58	5.821
Apr. '55	5.079	Apr. '57	5.507	Apr. '58	5.813
July '55	5.050	July '57	5.501		
Oct. '55	5.055	Oct. '57	5.602		



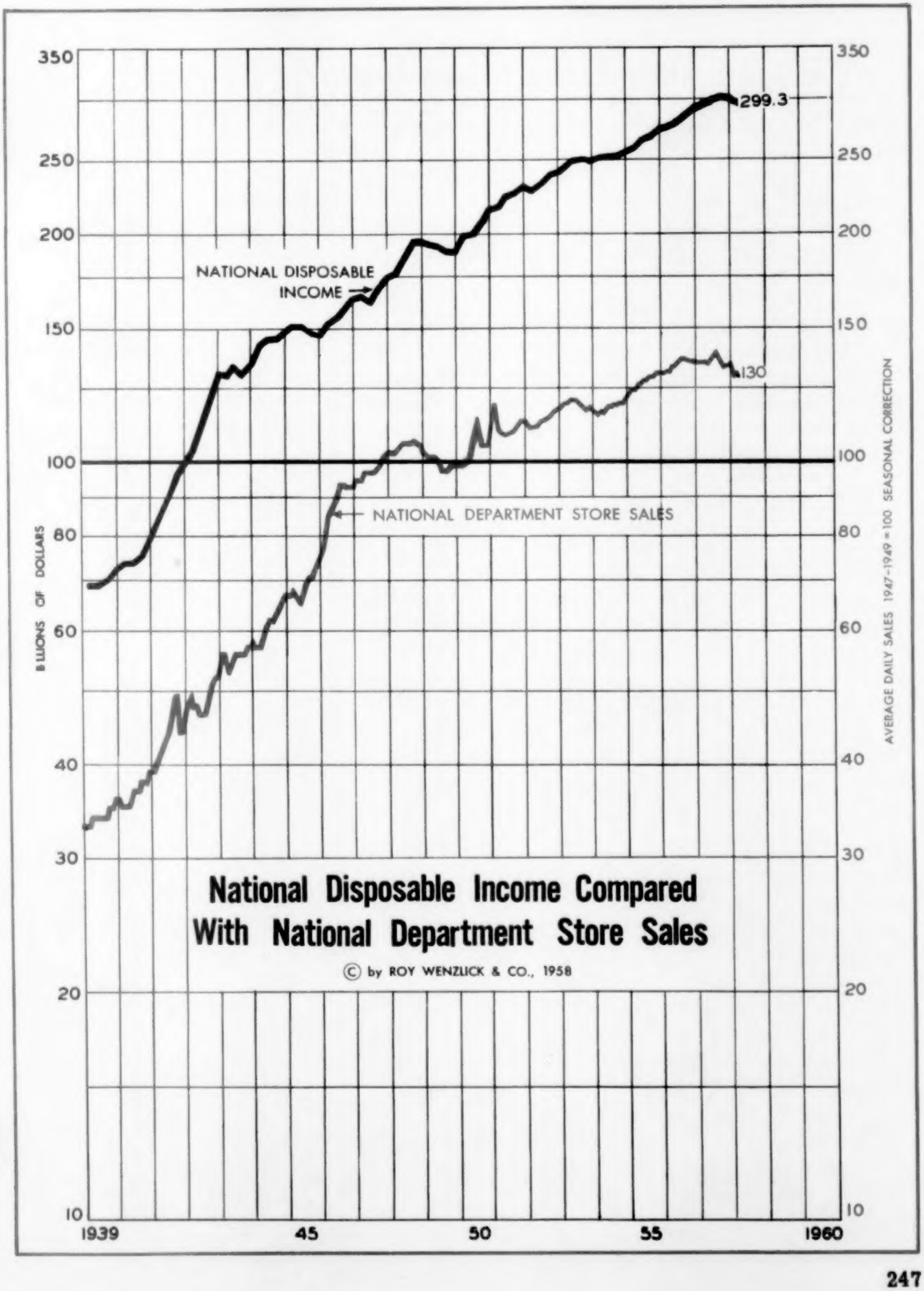


Real Estate Act ivit
Voluntary Transfers per 10,000 Families
172.0
170.5
56.2
29.2
46.62
3.94
Real Estate Sales Price Index
Index 1947—1949 = 100
32.1
Cost Of Standard Six-Ro
In Dollars
$3692
126.7
76.6
108.7
Wholesale Pr
46.3
Relationship Of Real Estate And General Business Barometers
© by ROY WENZLICK & CO., 1958
WORLD WAR I
U.S. ENTRY
28
1910
1915
1920
1925
1930


Mortgage Activity
per 10,000 Families
Dwelling Units
Per year per 1,000 Families
Nonfarm Dwelling Units
Residential Rents
Index 1947–1949 = 100
Price Index
Industrial Production
Index 1947–1949 = 100
WORLD WAR II
U.S. ENTRY
KOREAN WAR
66.3
60.1
23.7
125.2
124.1
$18,316
137.3
119.4
132
126
1940
1945
1950
1955
1960



The index of confidence shown above is based on a study made many years ago by General Leonard P. Ayres. It divides the yield of the very best bonds by the yield of second-rate bonds. The fundamental theory behind this index is that when confidence drops the investing public will pay a higher price in relation to income for the best type bonds than it will for a second-rate bond. When confidence is very high, however, there is relatively little difference in the price the public will pay for the highest grade and the second grade. On this chart it will be noticed that in 1953 and again in 1956 the general public was willing to pay better than 88% as much for a second-rate bond as it was for a first-rate bond. This figure has now dropped to 77.1%, the lowest figure since 1949. This figure is still relatively high when compared to the low ratios during the big depression. The low point was reached in 1932, when the general public was willing to pay only 46% as much for a second-rate bond as it was for one of the first quality. We think that this index will work slightly lower during 1958.



350
250
200
150
100
80
60
40
30
20
10
BILLIONS OF DOLLARS
AVERAGE DAILY SALES 1947-1949 = 100 SEASONAL CORRECTION
NATIONAL DISPOSABLE INCOME
299.3
130
NATIONAL DEPARTMENT STORE SALES
1939
45
50
55
1960
National Disposable Income Compared With National Department Store Sales
© by ROY WENZLICK & CO., 1958

(cont. from page 243)
mortgage survey of 176 cities, referred to on page 241, reveals that in more than half of these cities the current mortgage interest rate is between $5\frac{1}{2}\%$ and 6%. The rates on the West Coast are higher than this, and on the East Coast tend to be lower.

The chart on the preceding page shows national disposable income compared with national department store sales. Both have been dropping since last fall, although national department store sales have dropped by a slightly larger percentage.

It seems more or less inevitable that drops in disposable income in a period of economic stress will always be accompanied by drops of a greater percentage in retail sales. This is due to the fact that in periods of uncertainty the average individual decreases his purchases and increases his savings. The greater the percentage drop in national disposable income, the bigger the percentage increase will be in savings of all types.

The purchase of many items is postponable, and the average family determines its buying policies on the basis of its confidence in the future. If things look uncertain, if unemployment is increasing, and if overtime pay is decreasing, more money is saved. This is the situation we are experiencing at the present time, and it seems probable that this condition will continue at least through 1958.